

Message Text

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TO AMEMBASSY LUSAKA PRIORITY

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E.O. 11652: NA

TAGS: EFIN, EINV, ZA, US

SUBJECT: EIMCO INTERAFRICA--A NEW SLANT ON ARREARS

1. PAUL GIBSON, PRESIDENT ON ENVIROTECH INTERNATIONAL,
PARENT FIRM OF EIMCO INTERAFRICA, NDOLA, VISITED
DEPARTMENT RECENTLY TO DESCRIBE THE FIRM'S POSITION
WITH REGARD TO ARREARS ON FOREIGN EXCHANGE REMITTANCES
FROM ITS ZAMBIAN OPERATION.

2. EI IS A WHOLLY-OWNED SUBSIDIARY THAT STOCKS, SERVICES
AND REBUILDS MACHINES FOR THE ZAMBIAN MINING INDUSTRY.
ENVIROTECH DIVISIONS IN THE US AND THE UK SELL
COMPONENT PARTS TO EI FOR RESALE TO ZAMBIAN MINING
COMPANIES OR FOR INCORPORATION IN MACHINES THAT EI
REBUILDS AND SELLS TO SAME CUSTOMERS. KWACHA PROCEEDS
TO EI ARE THEN PLACED IN QUEUE FOR HARD CURRENCY
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REMITTANCE, CURRENTLY DEUTSCH MARKS.

3. WHEN THIS PRACTICE ESTABLISHED SOME YEARS PREVIOUSLY,
QUEUE FOR FOREIGN EXCHANGE AVERAGED 2-3 MONTHS, BUT
WITH GRZ'S INCREASING ECONOMIC DIFFICULTIES QUEUE
GRADUALLY LENGTHENED TO 12 MONTHS, AND FOR ALL PRACTICAL
PURPOSES REMITTANCES FROM EI HAVE CEASED SINCE 1977.

TOTAL EI REMITTANCES PENDING IN QUEUE, DATING FROM
AS EARLY AS NOVEMBER 1976, NOW EXCEED 2 MILLION DOLLARS.

4. IN JULY 18 LETTER TO ZAMBIAN IMF EXDIR WILA
MUNGOMBA, WHO ENVIROTECH UNDERSTANDS IS RETURNING TO
ZAMBIA JULY 26, FIRM REQUESTED HIM TO SEEK FINANCE
MINISTRY HELP IN RESUMING PAYMENTS, BUT MORE IMPORTANTLY
TO SEEK DEFINITIVE INFORMATION ON QUEUE STRUCTURE,
BOTH AS TO CRITERIA BY WHICH CERTAIN PAYMENTS ARE PLACED
IN CERTAIN QUEUES, AND AS TO LENGTH OF EACH QUEUE.
LETTER EXPLAINS THAT "THIS INFORMATION IS ESSENTIAL
TO ENVIROTECH AND OTHER SUPPLIERS AS OTHERWISE ALL OF
ZAMBIA'S SUPPLIERS WILL BE FORCED TO GO TO A CASH ON
DELIVERY-LETTER OF CREDIT BASIS ON FUTURE SHIPMENTS."

5. IN CALL ON DESKOFF JULY 13, GIBSON EXPLAINED THAT
ENVIROTECH/EI HAS LONG HAD THE BENEFIT OF AN ARRANGEMENT
WITH CENTRAL BANK WHEREBY KWACHA FUNDS WERE PLACED IN
QUEUE FOR PAYMENT, BUT IN THE MEANTIME WERE AVAILABLE
TO EI FOR USE AS LOCAL WORKING CAPITAL. PARTICULARLY
IN VIEW OF THIS ADVANTAGEOUS SITUATION, ENVIROTECH
WAS RELATIVELY UNCONCERNED ABOUT LENGTH OF QUEUE,
SO LONG AS SYSTEM CONTINUED TO WORK IN PREDICTABLE
FASHION. EVEN IF FUNDS HAD HAD TO REMAIN IN ESCROW
AWAITING FOREIGN EXCHANGE ALLOCATION, HE EXPLAINED,
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ENVIROTECH COULD HAVE SIMPLY RAISED PRICES TO COMPENSATE
FOR THE COST OF HAVING MONEY TIED UP.

6. PROBLEM AROSE FOR THE FIRM WHEN THE ZAMBIAN QUEUE
SYSTEM APPEARED TO BE BREAKING DOWN. IN ADDITION TO
ABSENCE OF INFORMATION OF THE TYPE DISCUSSED IN PARA 4
ABOVE, GIBSON COMPLAINED THAT ALTHOUGH SIGNIFICANT
AMOUNT OF FIRST IMF DISBURSEMENT HAD REPORTEDLY BEEN
ALLOCATED TO PAYING OF ARREARS, NONE OF ENVIROTECH'S
REMITTANCES, DATING BACK AS MUCH AS 18 MONTHS, HAD
BEEN PAID. THE FIRM HAD HEARD THAT THE GRZ HAD BEGUN
TO PICK AND CHOOSE AMONG CREDITORS IN THE QUEUE, PERHAPS
PRIORITIZING THEM BY SOME INFORMAL MEANS (OR PERHAPS
PAYING THOSE WHO WERE COMPLAINING THE LOUDEST OR WHO
HAD THE MOST LEVERAGE). AS A RESULT, DEPRIVED OF ANY
BASIS ON WHICH TO CALCULATE COST OF HAVING ITS ASSETS
TIED UP IN THE ZAMBIAN QUEUE, OR TO JUDGE RATE AT WHICH
THEY MIGHT BE EXTERNALIZED, ENVIROTECH MANAGEMENT HAD
FELT OBLIGED TO CONSIDER SUSPENDING ANY FURTHER CREDIT
TO ZAMBIA.

7. GIBSON DID NOT RPT NOT REQUEST DEPARTMENT TO SEEK

ACCELERATED PAYMENT OF EI REMITTANCES, BUT STRESSED

INSTEAD THE NEED FOR THE GRZ TO CLARIFY ITS CURRENT FOREIGN EXCHANGE PRACTICES. HE BELIEVES THAT THE ANXIETIES OF MANY IF NOT MOST OF ZAMBIA'S CREDITORS WOULD BE SUBSTANTIALLY REDUCED BY THEIR RECEIPT OF SUCH INFORMATION. DESKOFF MENTIONED THE EFFORT THAT HAD BEEN MADE IN MID-1976 BY NEWLY-APPOINTED CENTRAL BANK GOVERNOR MWANANSHIKU TO ASSUAGE CREDITORS' FEARS, AND THE GENERALLY POSITIVE RESPONSES THAT LETTER-WRITING CAMPAIGN HAD BROUGHT. GIBSON BELIEVED THAT ANOTHER SUCH EFFORT COULD PAY REAL DIVIDENDS FOR ZAMBIA.

8. DEPARTMENT IS INCLINED TO ENDORSE GIBSON'S SUGGESTION, LIMITED OFFICIAL USE

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AND TO ENCOURAGE THE GRZ TO MAKE THE REQUIRED EXPLANATION. HE DOES NOT OBJECT TO YOUR CITING ENVIROTECH AS A CASE IN POINT, TO ILLUSTRATE THE NEED FOR GRZ ACTION. IF YOU CONCUR THAT WE SHOULD PUSH THE IDEA WITH THE GRZ, WE LEAVE MODALITIES UP TO EMBASSY'S DISCRETION, BUT WOULD APPRECIATE YOUR COMMENTS AND A REPORT OF ACTION TAKEN OR PLANNED.

9. IAN SMITH, VICE PRESIDENT - INTERNATIONAL OF ENVIROTECH'S MINING MACHINERY GROUP AND EITHER TREASURER JOHN HENRICKS OR ASSISTANT TREASURER BILL FILL-MORE OF THE PARENT FIRM PLAN TO VISIT LUSAKA BEGINNING AUGUST 15. THEY WILL CONTACT E/C OFFICER BARCAS UPON ARRIVAL. VANCE

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